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1994 SIAP

I. Mission Statement

- Link SIAP with the 1994 R. J. Reynolds Tobacco Company's financial objectives:

\$760 Million Income Before Taxes (IBT)
or \$1.4 Billion Business Unit Contribution (BUC)

- Maintain a balanced focus on volume and SOM

II. Philosophy

The 1994 Sales Incentive Award Plan is designed to drive the bottom line financial objective.

To achieve this goal, SIAP offers tangible awards to Field Sales Personnel who effectively utilize all available profitability resources within their level of accountability. The rewards are designed to inspire Field Sales Personnel and Management to take ownership of the Company's 1994 earnings objective.

The 1994 plan links individual and team performance with the achievement of the Company's financial objectives while maintaining a balanced focus on volume and share of market.

1994 SIAP Objectives:

The 1994 SIAP objectives are directly linked to the utilization of all available profitability resources within an employees' level of accountability:

Program/Mgmt. Effectiveness:

- Implementation of workplan programs
- Implementation of merchandising strategies
- Management of personnel resources
- Management of accountable budgets

National/Region Share:

- National Share of Market Objectives
 - Full Price Share of Category: 24.5
 - Savings Share of Category: 34.1
 - Winston Select Share of Mkt.: 1.1
- Nat'l/Area/Region Share of Category
 - Total Camel (excl. Regular) +.5 increase

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1994 SLAP CASH INCENTIVE PLAN

I. DM and Above

Program Weightings:

	<u>Weight</u>	<u>Score</u>
Company Financials (IBT/BUC)	70%	0 to 250%
Program Objectives	30%	0 to 200%
• National/Regional Share (15%)		
• Program/Mgmt. Effectiveness (15%)		

II. ELM and Below

Program Weightings:

	<u>Weight</u>	<u>Score</u>
Company Financials (IBT/BUC)	50%	0 to 250%
Program Objectives	50%	0 to 200%
• National/Regional Share (15%)		
• Program Effectiveness (35%)		

Note: Targeted personal profit amounts are:

- 10% of base pay for Retail and Sales Representatives
- 15% of base pay for other full-time, exempt Field Sales participants

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LOCAL PERFORMANCE PROGRAM

- Program elements same as 1993
 - Travel Award/National Marketing Consultants, Inc.
 - Merchandise Award/Maritz
- Budget reductions

Note: Eligibility to include Region Operations Manager and Coordinator positions

NATIONAL SALES MASTERS PROGRAM

- Eliminated for 1994

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DISTRIBUTION SYSTEM & RJR'S SALES/MARKETING GOALS

BACKGROUND

1980's

- ~ More distributors - about 1450 tob./candy
- ~ Worked closer, more knowledge
- ~ Fewer brands
- ~ Modestly profitable
- ~ More Industry volume

2000

- ~ 400-600 customers
- ~ 75% volume from 25-30 accounts

1994

- ~ Consolidation accelerating - 1000 tob./candy
- ~ Survivors - larger companies - more sophisticated
- ~ Less profitability - volume

1990's

- ~ RJR more focused - retail
- ~ Consolidation begins
- ~ Profitability declines
- ~ Costs increase - brands explode/
private labels

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ENVIRONMENTAL/MARKET FACTORS

- ~ Demand (volume)
- ~ Taxes - FET/state
- ~ Regulatory restrictions
- ~ Banking pressures
- ~ Fair trade



MANUFACTURER RESPONSES

- ~ Product proliferation
- ~ Saving segment
- ~ Pricing (+/-)
- ~ Terms
- ~ Trade programs
- ~ Allocations



DISTRIBUTOR RESPONSES

- ~ Product breadth
- ~ Acquisition (scale)
- ~ Restructuring
- ~ Technology
- ~ Pricing
- ~ Forward buying



RETAIL FACTOR

- ~ Warehouse Clubs
- ~ Extended payables
- ~ Order patterns
- ~ Bankruptcies
- ~ Consolidations/Chains
- ~ Cigarette outlets



COMPETITIVE MARKET FACTOR

- ~ Line breadth
- ~ Services
- ~ Pricing

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DIRECTIONAL GOALS AND CONCERNS

- How do we better utilize distributors?
- What role can they play?
 - ~ Selling
 - ~ Distribution
 - ~ Display
 - ~ Logistics, etc.
- What activities can they do better?
 - ~ Sales Representatives full-time or part-time activity?



- Develop new business programs with them . . . for our advantage in new business environment.

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PERFORMANCE INCENTIVE PROGRAM

- ~ EFT + \$2.00 (all customers)
- ~ Sales Information (selected accounts)
- ~ Distributor Assist \$ (selectively)

WHY CHANGED

- ~ \$6.00 to \$2.00 > put \$20 mm on bottom line
- ~ P. Morris Masters at comparable \$ level per case
- ~ Eliminate some \$ ill-spent -- lack of performance

DIRECTIONAL GOALS

- ~ Base > \$2.00 +EFT \$
 - Stock new brands
 - Handle returns
 - Treat fairly
 - Distribution
- ~ Distributor Assist \$
 - Target spending for "performing" customers
 - Gaining distribution or display
 - Logistics
 - Assist in accomplishing sales objectives
- ~ Sales Information \$
 - Info for A.I.M.
 - Contract volumes

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TOPICS -- Q&A

- ~ Distributor assist - value added
- ~ Allocations
- ~ Case allowances
- ~ Damaged goods
- ~ Sales Information program
- ~ Private label
- ~ Fairness
- ~ Promotions - promotional logistics
- ~ SKU's - proliferation
- ~ Distributor budgets

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